

Report
of the
Examination of
Valley Health Plan, Inc.
Eau Claire, Wisconsin
As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

February 5, 2004

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Honorable Jorge Gomez
Commissioner of Insurance
Madison, Wisconsin

Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

VALLEY HEALTH PLAN, INC.
EAU CLAIRE, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Valley Health Plan, Inc. (the company or VHP), was conducted in 2000, as of December 31, 1999. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Provider Contracts
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results " contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

Valley Health Plan, Inc. (VHP), is a for-profit, group model health maintenance organization (HMO) insurer. An HMO insurer is defined by s. 609.01 (2), Wis. Stat., as "a health care plan offered by an organization established under ch. 185, 611, 613, or 614 or issued a certificate of authority under ch. 618, Wis. Stat., that makes available to its enrolled participants, in consideration for predetermined fixed payments, comprehensive health care services performed by providers selected by the organization." VHP contracts with a sponsoring clinic to provide primary and specialist services. In addition, the company provides care through contracts with clinics and independent physicians operating out of their separate offices. HMOs compete with traditional fee-for-service health care delivery.

VHP commenced business on August 26, 1981, as Midelfort Clinic Health Plan Coop, a not-for-profit cooperative, operated by Midelfort Clinic, Ltd. As part of a reorganization in 1988, the business of the cooperative was transferred to an entity incorporated as a for-profit group model HMO, under the name Midelfort Health Plan, Inc. (MHP), a wholly owned subsidiary of Midelfort Clinic, Ltd. The company was purchased by United Wisconsin Services, Inc. (UWS), on January 1, 1992. The purchase by UWS was followed by a name change from MHP to Valley Health Plan, Inc., effective January 15, 1993. The ultimate parent of VHP was Blue Cross & Blue Shield United of Wisconsin (BCBSUW). On March 28, 2000, BCBSUW converted from a not-for-profit service insurance corporation to a for-profit stock insurer and, on March 23, 2001 became a wholly owned subsidiary, along with all other affiliates, of Cobalt Corporation (Cobalt) formally known as UWS.

VHP, though a wholly owned subsidiary of Cobalt, is operated under a joint venture agreement with Midelfort Clinic, Ltd., BCBSUW, and UWS. The joint venture agreement became effective January 1, 1992, for an initial term of five years. The purpose of the joint venture is to design and market managed care products, which utilize a provider network. An eight-member governing board consisting of four appointees each of BCBSUW and Midelfort Clinic directs this arrangement. At the end of the initial term of five years, parties had the option to renew for one-year terms unless written notice is given otherwise, at least 180 days prior to the end of the five

years. The joint venture was renewed for an additional three (3) years ending December 31, 1999. A 2nd renewal was entered into effective January 1, 2000, and ending December 31, 2002. Effective January 1, 2003, Cobalt, Midelfort Clinic, and VHP entered into a new joint venture agreement for an initial term of three years.

Midelfort Clinic has the option to repurchase the company at the end of the joint venture (December 31, 2005) or in the event of the termination of the joint venture. The joint venture would terminate if Midelfort Clinic exercises its option to repurchase VHP, unless the parties mutually agree otherwise in writing.

VHP contracts with clinics to provide care to its members. When a member initially enrolls in an HMO product, the subscribers choose one of the four clinic options from which to receive their primary care. Each clinic option has various branch clinics and independent clinics that may be utilized by the members. The member may go to any primary care or specialty care physicians who are affiliated with the selected clinic option. VHP contracts with 41 clinics located in 19 counties, with 235 primary care and 136 specialty care physicians. Members selecting the Point-of-Service (POS) product have the option of receiving care at any VHP provider or from an "out-of-network" provider. Any member selecting the "out-of-network" benefit is subject to an annual deductible and must pay a portion of each covered service.

Referrals to another participating VHP physician do not require prior written authorization by VHP. However, care outside the plan providers must be requested by a participating physician and authorized in writing in advance of the initial appointment by the VHP medical director or assistant medical director. Failure to obtain preapproval may result in denial of the claim. The referral, which is valid for a maximum of six months, must be specific on the type of service. Self referral within the VHP network for specialty care is allowed and does not require prior authorization from the primary care physician.

Since VHP is primarily a group model HMO, providers are retained through contracts with clinics. Branch office clinics do not have separate contracts; one contract is executed for each clinic group. Each clinic group contracts with the physicians who practice at the clinics.

VHP currently contracts with the following clinics classified by the four options:

Midelfort Option - Clinic Locations

Midelfort Clinic, Ltd. (Luther Campus & Clairemont Campus in Eau Claire, Barron, Bloomer, Cameron, Chetek, Chippewa Falls, Colfax, Mondovi, Osseo, and Prairie Farm)
Amery Regional Medical Center (Amery & Clear Lake)
Baldwin Area Medical Center
Castleberg Clinic, S.C.
Community Clinics (Alma, Plainview, and Wabasha)
Durand Medical Clinic
Ellsworth Medical Clinic
Family Medicine Clinic
Franciscan/Skemp HealthCare of Arcadia
Hudson Physicians, Inc.
Krohn Clinic
New Richmond Clinic
Orthopedic Clinic of New Richmond, S.C.
Osceola Medical Center
Osseo Family Medicine Clinic
Pine Grove Family Practice Associates
River Falls Medical Clinic
Spring Valley Medical Clinic
St. Croix Regional Medical Center

Cumberland Option

Cumberland Clinic, S.C. (Cumberland and Turtle Lake)

Red Cedar Option

Red Cedar Clinic (Menomonie and Glenwood City)
Elmwood Clinic

Indianhead Option

Marshfield Clinic – Bruce
Marshfield Clinic – Indianhead Center
Marshfield Clinic – Lake Country
Marshfield Clinic – Lakewoods Center

Midelfort Clinic is compensated on a capitation basis for physician services and for HMO products. For POS products, the clinic is compensated on a discounted fee-for-service basis. Other clinics are paid on a discounted fee-for-service basis. The contracts include hold-harmless provisions for the protection of policyholders and enrollees. The contracts have one-year terms and may be terminated by either party with 90 day written notice.

VHP contracts with one hospital to provide inpatient services (Luther Hospital – Mayo Health System). Starting January 1, 2000, the hospital is reimbursed on a discounted fee for-service basis only. The contract includes hold-harmless provisions for the protection of policyholders and enrollees.

The following is a listing of hospitals in which participating physicians have admitting privileges:

Amery Regional Medical Center
Barron Memorial Medical Center
Black River Memorial Hospital
Bloomer Medical Center
Chippewa Valley Hospital & Nursing Home
Cumberland Memorial Hospital
Hudson Memorial Hospital
Lakeview Medical Center
Luther Hospital*
Myrtle Werth Medical Center
Osseo Area Hospital
River Falls Area Hospital
Sacred Heart Hospital
St. Elizabeth's Hospital
St. Joseph's Hospital

The contracting hospital is denoted with an asterisk (*).

According to its business plan, the company's service area is comprised of the following counties:

Barron	Jackson	Rusk
Buffalo	La Crosse	Sawyer
Burnett	Monroe	St. Croix
Chippewa	Pepin	Taylor
Clark	Pierce	Trempealeau
Dunn	Polk	Washburn
Eau Claire		

This is further discussed in the section of this report captioned "Summary of Current Examination Results."

VHP offers to commercial enrollees comprehensive health care coverage which may be changed by riders to include deductibles and copayments. The following basic health care coverages are provided:

- Inpatient services
- Outpatient services
- Mental health, drug, and alcohol abuse services
- Ambulance services
- Special dental procedures (oral surgery)
- Prosthetic devices and durable medical equipment
- Newborn services
- Home health care
- Preventive health services
- Family planning
- Hearing exams
- Diabetes treatment
- Routine eye examinations
- Skilled care services (not custodial, or supportive care), limited to 30 days per admission
- Prescription drugs—variable copayments or coinsurance based on employer group coverage
- Cardiac rehabilitation, physical, speech, occupational therapy
- Kidney disease treatment
- Certain transplants
- Chiropractic services

Inpatient and outpatient mental health and AODA coverage for VHP's PartnerPlan (HMO product) is as follows; Mental Health & Substance Abuse has a combined maximum of \$7,000 per calendar year; Inpatient – 100% up to \$6,300 or 30 days, whichever is less; Outpatient – 100% up to \$1,800; and Transitional - 100% up to \$2,700. Thereafter, VHP pays 25% of charges for mental health only.

The point-of-service in-network care for mental health and substance abuse has a combined maximum of \$7,000 per calendar year; Inpatient – 100% up to \$6,300 or 30 days, whichever is less; Outpatient – 100% up to \$1,800; and Transitional – 100% up to \$2,700. Thereafter, VHP pays 25% of charges for mental health only. The out-of-network care for mental health and substance abuse inpatient care is covered 90% of the first \$7,000 or 30 days, whichever is less; Outpatient – 90% of the first \$2,000; and Transitional – 90% of the first \$3,000. Thereafter, VHP pays 10% of charges for mental health only.

Emergency room services have a copayment (variable depending on employer group) that is waived upon admission into an inpatient facility.

Except for point-of-service plans, coverage is contingent on nonemergency services being provided by participating physicians and hospitals or on the referral of participating physicians. Members are required to choose a physician from a listing of available participating individual physicians. VHP also offers plans in which certain services have copayments and deductibles.

Effective January 1, 2002, VHP contracts directly with the Wisconsin Department of Health and Family Services (DHFS) to provide health care benefits to eligible medical assistance (Medicaid and BadgerCare) recipients in Barron County. The current contract expired on December 31, 2003.

VHP currently markets the following products to groups and individuals: Small Group (2-25 employees), Partner Plan, Point-of-Service, Medicare Select, and Individual. The group business is sold through the marketing and sales departments of BCBSUW and select agencies. Medicare Select is only sold by internal licensed personnel. VHP's individual product (Agrihealth, Agrihealth II, and Valley One) is sold through an outside agency. In May 1993, the point-of-service product was introduced as a separate option and product. Prior to July 1, 2000, outside agencies received brokers' fees for the first month and 9% of premiums for each subsequent month the policy was in effect. Effective July 1, 2000, they receive \$22 per contract, per month.

VHP uses an actuarially determined base as a beginning point in premium determination. This rate is adjusted to reflect the age, sex, occupation, and coverage characteristics for new groups. Experience is reviewed for renewal groups and, based on the review, a recommendation is made regarding adjusting the rate or canceling the group. The base rate is adjusted quarterly for inflation and other trending factors. All adjustments to the rates are approved by the actuarial staff whose services are provided to VHP through an administrative service agreement with BCBSUW.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. All directors are elected annually to serve a one-year term. Officers are appointed by the board of directors. Members of VHP's board of directors may also be members of other boards of directors in the Cobalt holding company system. The board members who are employees of Cobalt currently receive no compensation for serving on the board. However, the president and executive vice president of Midelfort Clinic, under an administrative service agreement between Midelfort Clinic and VHP, are compensated a minimal amount of \$3,600 and \$2,100 for serving on the VHP board.

At December 31, 2002, the board of directors consisted of the following persons:

Name and Residence	Principal Occupation	Term Expires
Stephen E. Bablitch Madison, WI	Cobalt Chairman & CEO	2002
Michael E. Bernstein Whitefish Bay, WI	Executive Vice President and COO	2002
Terry R. Bolz Verona, WI	President, VHP	2002
Gail L. Hanson Delafield, WI	Senior Vice President, CFO, Treasurer, and Secretary, VHP	2002
Kathy A. Ledvina New Berlin, WI	Senior Vice President, Health Operations Cobalt	2002
Randall L. Linton, MD Eau Claire, WI	President and CEO; Midelfort Clinic Mayo Health System	2002
Michael J. Murray Pewaukee, WI	Senior Vice President and Chief Actuary Cobalt	2002
Joel T. Rueber Eau Claire, WI	Vice President, Operations Midelfort Clinic – Mayo Health Systems	2002

Officers of the Company

The officers elected or appointed by the board of directors and serving at the time of this examination are as follows:

Name	Office	2002 Salary
Stephen E. Bablitch	Chairman and CEO	**
Terry R. Bolz	President	**
Michael E. Bernstein	Executive Vice President and COO	**
Gail L. Hanson	Senior Vice President, CFO, Treasurer, and Secretary	**

**Officers are all employed by Cobalt Corporation or Unity Health Plans Insurance Corporation (Unity) and are not directly compensated for their services as officers of VHP.

Committees of the Board

VHP's bylaws allow for the formation of certain committees by the board of directors. Currently, there are no committees of the board of directors.

Governing Board

The joint venture agreement between VHP, Midelfort Clinic, Ltd., and Cobalt calls for the formation of a governing board. The governing board oversees the operations of VHP. Representatives of Midelfort Clinic, Ltd., received compensation totaling \$256,350 for serving on the governing board. The members of the governing board at the time of the examination are listed below:

Name	Affiliation
Stephen Bablitch	Cobalt
Michael Bernstein	Cobalt
Terry Bolz	Unity
Terrance Borman, MD	Luther/Midelfort-Mayo Health System
Randall Linton, MD	Luther/Midelfort-Mayo Health System
Patrick Macken, MD	Luther/Midelfort-Mayo Health System
Michael Murray	Cobalt
Joel Rueber	Luther/Midelfort-Mayo Health System

Committees of the Governing Board

The governing board appoints certain management committees. The members of the one active management committee at the time of the examination are listed below:

Executive Committee

Debora A. Kunferman, VHP Director (Chair)
Terry Bolz, VHP President
Dr. Terrance Borman, Medical Director
Dr. Randall Linton, VHP Medical Director
Joel Rueber, Executive Vice President-Luther/Midelfort-Mayo Health System
Robert Tanner, VHP Finance

Most of VHP's staff is provided through an administrative service agreement with the following affiliates: BCBSUW, United Wisconsin Insurance Company (UWIC), Compcare Health Services Insurance Corporation, and Meridian Managed Care, Inc. VHP also has a service agreement with Midelfort Clinic, Ltd. These agreements provide VHP with personnel, management services, accounting, actuarial, payroll, marketing, utilization review, claims processing, and other administrative services required for the day-to-day operations of VHP. Compensation for services rendered under the service agreements is based on actual cost or agreed upon hourly rates. The contracts have a one-year term and automatically renew unless terminated by either party giving notice to the other party at least 90 days prior to the end of a renewal term.

Financial Requirements

The financial requirements for an HMO under s. Ins 9.04, Wis. Adm. Code, are as follows:

	Amount Required
1. Minimum capital or permanent surplus	Either: \$750,000, if organized on or after July 1, 1989 or \$200,000, if organized prior to July 1, 1989
2. Compulsory surplus	The greater of \$750,000 or: If the percentage of covered liabilities to total liabilities is less than 90%, 6% of the premium earned in the previous 12 months; If the percentage of covered liabilities to total liabilities is at least 90%, 3% of the premium earned in the previous 12 months
3. Security surplus	The greater of: 140% of compulsory surplus reduced by 1% of compulsory surplus for each \$33 million of additional premiums earned in excess of \$10 million or 110% of compulsory surplus
4. Operating funds	Funds sufficient to finance any operating deficits in the business and to prevent impairment of the insurer's initial capital or permanent surplus or its compulsory surplus

Covered liabilities are those due to providers who are subject to statutory hold-harmless provisions.

In addition, there is a special deposit requirement equal to the lesser of the following:

1. An amount necessary to maintain a deposit equaling 1% of premium written in this state in the preceding calendar year;
2. One-third of 1% of premium written in this state in the preceding calendar year.

The company has satisfied this requirement for 2002 with a deposit of \$885,000 with the State Treasurer. See the Summary of Current Examination Results section of this report for further comment on the deposit requirement.

Insolvency Protection for Policyholders

Under s. Ins 9.04 (6), Wis. Adm. Code, HMOs are required to a) meet the higher compulsory surplus standards for indemnity insurers under s. Ins 51.80, Wis. Adm. Code, or b) provide continuation of coverage for its enrollees. These requirements are the following:

1. Enrollees hospitalized on the date of insolvency will be covered until discharged; and
2. Enrollees will be entitled to similar, alternate coverage which does not contain any medical underwriting or preexisting limitation requirements.

The company has met this requirement through its reinsurance contract, as discussed in the Reinsurance section of this report.

IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Its ultimate parent is Cobalt Corporation. Below is a brief description of the significant affiliates of VHP. The organizational chart, which depicts the relationships among the affiliates in the group, as of December 31, 2001, follows the descriptions.

Cobalt Corporation

Cobalt Corporation (Cobalt), formerly known as United Wisconsin Services, Inc. (UWS), operates as an insurance holding company for the group. UWS was incorporated in 1998 and organized pursuant to ch. 180, Wis. Stat. UWS was publicly traded over the New York Stock Exchange under the symbol UWZ until March of 2001. Effective March 23, 2001, Cobalt Corporation was formed after the conversion of Blue Cross & Blue Shield United of Wisconsin (BCBSUW) to a for-profit stock insurer and a reorganization whereby Cobalt Corporation became the parent of BCBSUW. Subsequently, Cobalt was traded on the New York Stock Exchange under the symbol CBZ.

The majority of Cobalt's common stock is owned by the Wisconsin United for Health Foundation (the foundation) as a result of the BCBSUW conversion. The foundation's ownership percentage is dependent on whether the 16.03% of Cobalt common stock owned by BCBSUW is treated as treasury stock or not. If BCBSUW owned Cobalt stock it is considered treasury stock, the foundation owns 75.19% of Cobalt Corporation common stock.

The December 31, 2002, audited consolidated financial statements for Cobalt reported assets of \$870 million, liabilities of \$567 million, and shareholders' equity of \$303 million. Operations for 2002 produced net income of \$74 million on revenues of \$2 billion.

Blue Cross & Blue Shield United of Wisconsin

Blue Cross & Blue Shield United of Wisconsin (BCBSUW) was a not-for-profit, service insurance corporation, incorporated in 1939, and organized pursuant to ch. 613, Wis. Stat. In June 1999, the BCBSUW Board of Directors announced its intention to convert BCBSUW from a not-for-profit service insurance corporation to a stock corporation. An application for a Plan of Conversion was filed with the commissioner on June 14, 1999. On

March 28, 2000, then Commissioner O'Connell approved a plan of conversion subject to a detailed list of conditions. On March 19, 2001, the Commissioner recognized BCBSUW's application as complete and the conversion under the order of March 28, 2000, was approved. Effective March 23, 2001, BCBSUW converted to a stock insurance corporation, subject to ch. 611, Wis. Stat. In addition to the conversion, BCBSUW became a wholly owned subsidiary of Cobalt through a combination of BCBSUW and Cobalt on March 23, 2001.

As of December 31, 2002, BCBSUW's statutory financial statements reported assets of \$304 million, liabilities of \$153 million, and unassigned funds of \$140 million. Operations for 2002 produced a net income of \$116 million on revenues of \$623 million.

Wisconsin United for Health Foundation, Inc.

Wisconsin United for Health Foundation, Inc. (the foundation), is a non-stock organization organized pursuant to ch. 181, Wis. Stat. It was created as part of the transaction under which BCBSUW was converted from a not-for-profit service insurance corporation to a for-profit stock company. The value of BCBSUW was transferred to the foundation as part of the conversion and was established for the purpose of benefiting public health initiatives developed by the University of Wisconsin Medical School and the Medical College of Wisconsin. Under a divestiture agreement, the foundation is required to sell down its holdings in Cobalt to less than 20% within five years and to contribute the proceeds from the sale equally to the University of Wisconsin Medical School and the Medical College of Wisconsin under a plan of divestiture. The foundation was funded as of December 31, 2002.

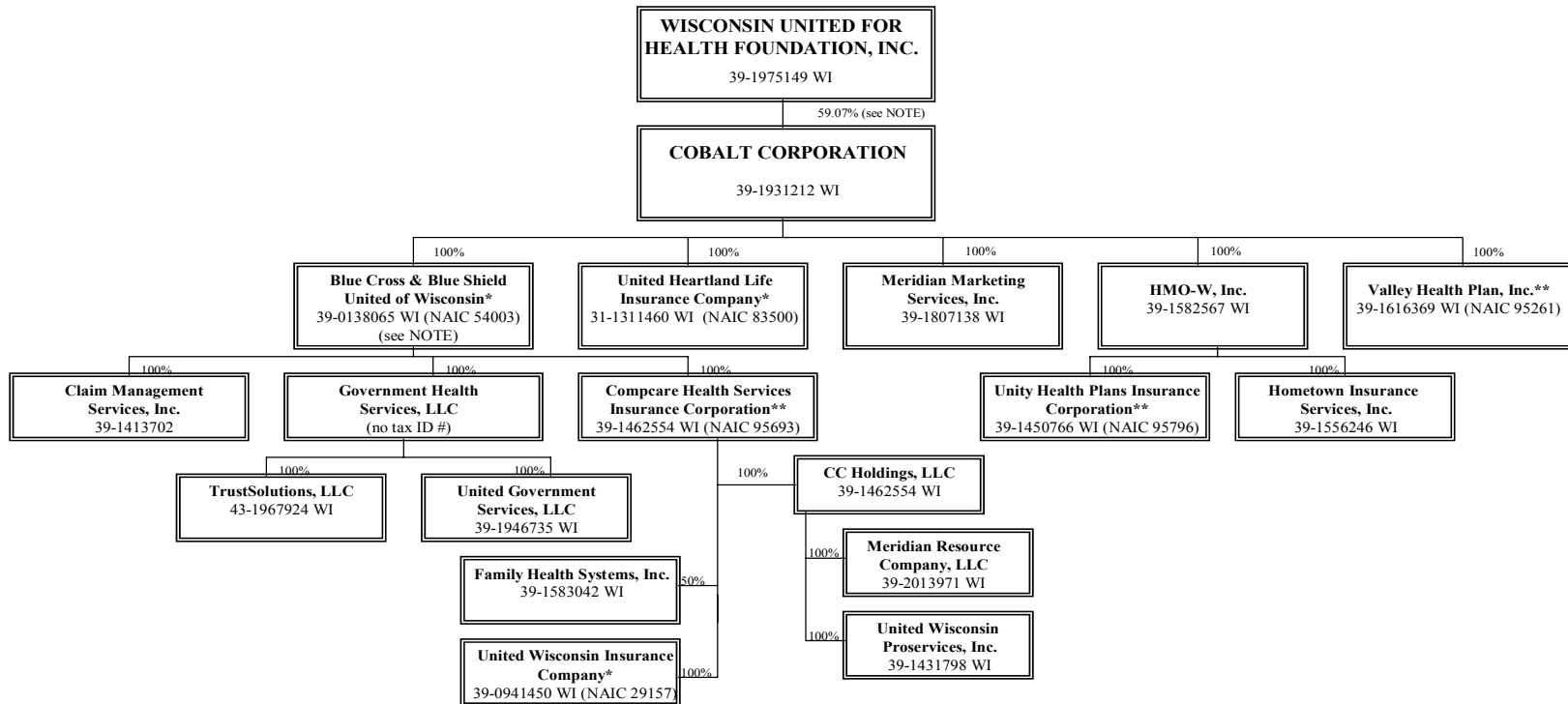
Affiliated Agreements

Valley Health Plan, Inc., has entered into numerous affiliated agreements. These agreements are described below:

- Second Amended and Restated Joint Venture Agreement among VHP, BCBSUW, UWS, and Midelfort Clinic, Ltd. – Mayo Health System effective January 1, 2000. This agreement provides that the parties agree to coordinate the design and marketing of various managed care products. This agreement has a three-year term. This agreement may be renewed for an additional three year term commencing January 1, 2003.

- Administrative Service Agreement between BCBSUW, Cobalt and VHP for the provision of provider relations, administrative services, accounting, management information systems, underwriting and product development, and pharmacy support, investment management, payroll, trade and purchasing, financial planning, medical consulting, legal, and public relations.
- Administrative Services Agreement with BCBSUW, under which BCBSUW underwrites the indemnity portion of VHP's POS products. This agreement was with UWIC. However, BCBSUW entered into a contract assuming the UWIC portion of jointly issued POS health policies issued by UWIC and VHP effective July 1, 2001. See the Summary of Current Examination Results section of this report for further comment.
- Federal Income Tax Allocation agreement with Cobalt and various affiliates for the purpose of establishing an equitable distribution of the tax-savings resultant from filing consolidated returns. VHP is required to advance to Cobalt, prior to year-end, amounts necessary to reimburse Cobalt for its share of estimated taxes.
- Administrative Service Agreement between VHP and Meridian for subrogation and worker's compensation recovery services to be provided by Meridian. See the Summary of Current Examination Results section of this report for further comment.
- Administrative Service Agreement between VHP and Meridian to identify potential billing schemes to which VHP has exposure. See the Summary of Current Examination Results section of this report for further comment.
- Administrative Service Agreement between VHP and Meridian to provide provider discount repricing service, fee negotiation, hospital bill audit program, and DRG Validation Audit.
- Administrative Service Agreement between VHP and United Wisconsin Proservices, Inc., under which VHP receives services that enable it to receive UB 92 and HCFA 1500 claim data by electronic submission. See the Summary of Current Examination Results section of this report for further comment.
- Network access agreement with United Wisconsin Proservices, Inc., whereby Proservices agrees to provide submitted claims information.

**Organization Chart
As of December 31, 2002**



V. REINSURANCE AND CORPORATE INSURANCE

The company has reinsurance coverage under the contract outlined below:

Reinsurer:	Standard Security Life Insurance Company of New York (Standard)
Type:	Specific Excess of Loss Reinsurance
Effective date:	January 1, 2002 – January 1, 2003
Deductible:	\$150,000 per member per contract year
Coverage:	<p>Eligible inpatient hospital services are limited to an average per day maximum of \$3,500. Eligible inpatient hospital services for contracting facilities shall be limited to the lesser of:</p> <ul style="list-style-type: none">(a) the contracted amount; or(b) the amount paid by the plan. <p>Eligible inpatient hospital services for all other facilities shall be limited to the lesser of:</p> <ul style="list-style-type: none">(c) 80% of billed charges; or(d) the contracted amount; or(e) the amount paid by the plan. <p>Eligible inpatient acute care rehabilitation services and skilled nursing services are subject to an average per day maximum of \$1,000 and 45 days and are limited to the lesser of:</p> <ul style="list-style-type: none">(a) 80% of billed charges; or(b) the contracted amount; or(c) the amount paid by the plan. <p>Eligible home health care services are subject to a per day maximum of \$350 for 45 days and are limited to the lesser of</p> <ul style="list-style-type: none">(a) 80% of billed charges; or(b) the contracted amount; or(c) the amount paid by the plan.
Additional coverage:	Endorsement C: Insolvency plan Endorsement P: Out of area conversion
Coinsurance	<p>The coinsurance percentages are as follows:</p> <ul style="list-style-type: none">(a) 90% of eligible hospital services(b) 50% of eligible hospital services related to organ and bone marrow transplants if performed under a transplant contract that is not approved by Standard.(c) 0% of eligible professional services. <p>\$1,000,000 maximum per member per contract year \$2,000,000 maximum lifetime coverage per member</p>

Premium:	<p>\$0.84 per member per member (PMPM) for commercial, point of service, and Medicaid/BadgerCare members</p> <p>Endorsement C: \$0.05 PMPM Endorsement P: \$0.03 PMPM (all commercial and point of service members).</p> <p>A minimum premium of \$250,000 is required to be paid for the agreement year.</p>
Termination:	<p>May be terminated by reinsurer to be paid with 31 days' written notice if the plan:</p> <ul style="list-style-type: none"> (a) acquires the assets and liabilities of any other entity; (b) is acquired, comes under control of or is merged with any other entity; (c) comes under partial or total supervision of a regulatory authority having jurisdiction over the plan; (d) loses its HMO or other regulatory license to operate any line of business covered under this agreement; (e) changes the underlying reimbursement contracts in place, Member Service Agreements, the number or type of Members covered by the plan or the way in which the plan operates its business so as to materially alter the Standard's risk.

The reinsurance policy contains the following insolvency provisions:

1. Standard will continue plan benefits for members who are confined in a hospital or other eligible inpatient facility on the date of insolvency until the earlier of:
 - the member's discharge
 - the date the member becomes covered under another group or program, or
 - 365 days from the date on which the insolvency occurred.
2. Standard will continue plan benefits for any member insured plan until the end of the contract period for which premiums have been paid to plan by that member or on his behalf.
3. Standard will make available to all members for a period of 30 days from the date of insolvency, without evidence of insurability, a replacement coverage of the same benefit schedule and rates as then being offered by Standard to other prospective insureds within the state.

This coverage is secondary to any other insurance covering members, and any other plan reinsurance coverage. Coverage is limited to \$1,000,000 maximum under the insolvency coverage.

The company is provided with corporate insurance coverage under the contracts listed below:

Type of Coverage	Policy Limits
Directors' and officers' liability	\$25,000,000
Workers Compensation and Employers Liability	500,000
General Liability	
General Aggregate	2,000,000
Products and Completed Work	2,000,000
Personal Injury	1,000,000
Advertising Injury	1,000,000
Each Occurrence	1,000,000
Premises Damage	1,000,000
Medical Expenses	10,000
Fiduciary Liability	40,000,000

The company was unable to provide evidence of fidelity bond, professional liability, and multi-peril insurance (see "Summary of Current Examination Results" for further comment).

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in its December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company for the period under examination. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Capital and Surplus per Examination."

Valley Health Plan, Inc.
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$16,589,793	\$ 0	\$16,589,793
Cash and short-term investments	25,010	0	25,010
Accident and health premiums due and unpaid	61,693	0	61,693
Health care receivables	837,209	2,196	835,013
Amounts recoverable from reinsurers	228,882	0	228,882
Investment income due and accrued	326,424	0	326,424
Amounts due from parent, subsidiaries and affiliates	13,365	13,365	0
Furniture and equipment	55,926	55,926	0
Federal and foreign income tax recoverable and interest thereon	718,275	242,272	476,003
Electronic data processing equipment and software	394,339	343,710	50,629
Total assets	<u>\$19,250,916</u>	<u>\$657,469</u>	<u>\$18,593,447</u>

Valley Health Plan, Inc.
Liabilities and Net Worth
As of December 31, 2002

Claims unpaid		\$ 6,827,297
Accrued medical incentive pool and bonus payments		1,621,507
Unpaid claims adjustment expenses		313,199
Premiums received in advance		483,306
General expenses due or accrued		192,787
Federal and foreign income tax payable and interest thereon		24,966
Borrowed money and interest thereon		13
Amounts due to parent, subsidiaries and affiliates		<u>737,704</u>
Total liabilities		10,200,779
Common capital stock	\$ 200,000	
Gross paid in and contributed surplus	1,348,914	
Unassigned funds (surplus)	<u>6,843,754</u>	
Total capital and surplus		<u>8,392,668</u>
Total liabilities, capital and surplus		<u>\$18,593,447</u>

Valley Health Plan, Inc.
Statement of Revenue and Expenses
For the Year 2002

Net premium income		\$88,089,390
Medical and Hospital:		
Hospital/medical benefits	\$62,108,198	
Other professional services	2,593,134	
Outside referrals	720,239	
Emergency room and out-of-area	1,234,578	
Prescription drugs	11,771,146	
Aggregate write-ins for other medical and hospital	1,342,799	
Incentive pool and withhold adjustments	<u>1,484,763</u>	
Subtotal	81,254,857	
Less		
Net reinsurance recoveries	<u>475,810</u>	
Total medical and hospital	80,779,047	
Claims adjustment expenses	3,031,815	
General administrative expenses	<u>3,634,155</u>	
Total underwriting deductions		<u>87,445,017</u>
Net underwriting gain or (loss)		644,373
Net investment income earned	846,008	
Net realized capital gains or (losses)	<u>7,153</u>	
Net investment gains or (losses)		<u>853,161</u>
Net income or (loss) before federal income taxes		1,497,534
Federal and foreign income taxes incurred		<u>431,229</u>
Net income (loss)		<u>\$ 1,066,305</u>

Valley Health Plan, Inc.
Capital and Surplus Account
As of December 31, 2002

Capital and surplus prior reporting year		\$7,763,733
Net income or (loss)	\$1,066,305	
Net unrealized capital gains and losses	(1,643)	
Change in net deferred income tax	7,439	
Change in nonadmitted assets	(497,455)	
Paid in (surplus adjustments)	<u>54,289</u>	
Net change in capital and surplus		<u>628,935</u>
Capital and surplus end of reporting year		<u>\$8,392,668</u>

**Valley Health Plan, Inc.
Statement of Cash Flows
As of December 31, 2002**

Cash from Operations

Premiums and revenues collected net of reinsurance	\$85,737,058
Claims and claims adjustment expenses	82,356,656
General administrative expenses paid	<u>3,446,200</u>
Cash from underwriting	(65,798)
Net investment income	927,386
Federal and foreign income taxes (paid) recovered	<u>(835,831)</u>
Net cash from operations	25,757

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$6,656,332	
Cost of investments acquired (long-term only):		
Bonds	<u>9,115,875</u>	
Net cash from investments		(2,459,543)

Cash from Financing and Miscellaneous Sources

Cash provided:			
Surplus notes, capital and surplus paid in	\$ 54,289		
Net transfers from affiliates	409,146		
Borrowed funds received	<u>13</u>		
Total		463,448	
Cash applied:			
Other applications		<u>718,397</u>	
Net cash from financing and miscellaneous sources			(254,949)
Net change in cash and short-term investments			(2,688,735)
Cash and short-term investments:			
Beginning of year			<u>2,713,745</u>
End of year			<u>\$ 25,010</u>

Growth of Valley Health Plan, Inc.

Year	Assets	Liabilities	Capital and Surplus	Premium Earned	Medical Expenses Incurred	Net Income
2002	\$18,593,447	\$10,200,779	\$8,392,668	\$88,089,390	\$80,779,047	\$1,066,305
2001	18,848,300	11,084,567	7,763,733	80,677,369	75,232,689	566,286
2000	19,179,887	11,983,928	7,195,959	77,896,347	76,158,968	(847,090)
1999	16,871,033	10,394,108	6,476,925	75,289,012	71,447,400	(145,413)

Year	Profit Margin	Medical Expense Ratio	Administrative Expense Ratio	Change in Enrollment
2002	1.20%	91.70%	7.49%	-1.16%
2001	0.69	93.25	6.36	-12.97%
2000	-0.73	97.77	6.20	-17.38%
1999	-0.19	94.90	6.65	3.71%

Enrollment and Utilization

Year	Enrollment	Hospital Days/1,000	Average Length of Stay
2002	30,428	319.18	3.83
2001	30,786	317.81	3.71
2000	35,375	303.47	*
1999	42,814	312.94	3.52

* - The company was unable to provide the data

Per Member Per Month Information

	2002	2001	Percentage Change
Premiums:			
Commercial	\$253.66	\$219.20	15.7%
Medicare Supplement	167.01	156.25	6.9
Medicaid	124.29	122.80	1.2
Expenses:			
Hospital/medical benefits	173.69	150.75	15.2
Other professional services	7.25	6.75	7.4
Outside referrals	2.01	1.35	48.9
Emergency room and out-of-area	3.45	5.21	-33.8
Prescription drugs	32.92	33.13	-0.6
Other medical and hospital	3.76	3.07	22.5
Incentive pool and withhold adjustments	4.15	1.03	302.9
Less: Net reinsurance recoveries	1.33	0.24	454.2
Total medical and hospital	225.90	201.05	12.4
Claims adjustment expenses	8.48	7.83	8.3
General administrative expenses	10.16	6.07	67.4
Total underwriting deductions	<u>\$244.54</u>	<u>\$214.95</u>	13.8

In the three year period under review, VHP reported a net loss in 2000. During 2000, earned premium increased 3% and medical and hospital expenses increased 5%, resulting in the net loss. VHP's enrollment decreased 12% combined with general premium rate increases which averaged 23%. VHP's enrollment continued to decrease in 2001 and 2002 due, in part, to general premium rate increases.

In 2001 and 2002, VHP experienced increases in capital and surplus due to positive net income offset with an increase in non-admitted assets. Capital and surplus levels continued to be in excess of compulsory and security surplus requirements over the three year period.

In the three year period under review, VHP experienced favorable operating cash flows. VHP's sources of cash are premium revenues and investment income. Positive cash flows are invested pending future payment of claims and other operating expenses. VHP's investment policies are intended to preserve capital, maximize yield and provide liquidity to meet anticipated payments.

Reconciliation of Capital and Surplus per Examination

The examination made no adjustment or reclassifications to capital and surplus and accounts as reported by the company in its filed annual statement. Capital and surplus per the December 31, 2002, annual statement and the examination is \$8,392,668.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were nine specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Plan of Operations—It is recommended that VHP file an amendment to its business plan notifying this office of the change in reimbursement basis with Luther Hospital.

Action—Compliance

2. Reinsurance—It is recommended that VHP seek to amend its reinsurance contract by eliminating the aggregate liability limit to assure adequate insolvency protection for its policyholders or capitalize at the level specified in s. Ins 51.80, Wis. Adm. Code.

Action—Compliance

3. Information System's Service Agreement—It is recommended that VHP's service agreement information technology support include provisions that identifies standards of performance, will indemnify and hold-harmless VHP for any wrongful acts, omissions, and/or errors by the service providers' employees in providing agreed-upon services.

Action—Not Applicable

4. EDP Environment – Data Processing—It is recommended that VHP establish procedures for periodical validation of computer access rights and change passwords a minimum of every 90 days.

Action—Compliance

5. Disaster Recovery Plan—It is recommended that VHP develop a more comprehensive disaster recovery plan that would identify what would be done without access to the office building and/or access to the mainframe computer.

Action—Noncompliance, see "Summary of Current Examination Results" for comments.

6. Disaster Recovery Plan—It is also recommended that VHP's disaster recovery plan be integrated with their information technology support provider as it relates to the services provided.

Action—Partial compliance, see "Summary of Current Examination Results" for comments.

7. Accounts Payable—It is recommended that VHP properly classify all affiliated payables as such in compliance with NAIC Annual Statement Instructions - HMO.

Action—Compliance

8. Reinsurance Recoverable—It is recommended that VHP properly classify reinsurance balances between United Wisconsin Insurance Corporation (UWIC) as affiliated balances according to the NAIC Annual Statement Instructions – HMO and nonadmit any receivables as required by s. Ins 9.10, Wis. Adm. Code.

Action—Not Applicable

9. Premium Receivable—It is recommended that VHP make the necessary system changes so that the aging of premium receivables will more accurately reflect any balances over 90 days past due and report them in accordance with the NAIC Accounting Practices and Procedures Manual.

Action—Partial compliance, see “Summary of Current Examination Results” for comments.

Summary of Current Examination Results

Management and Control

The examination review of the minutes noted that VHP held its annual meetings during the months of September, October, and November. Pursuant to Article II of the bylaws, the annual meeting of the shareholders is to be held at 6:00 p.m. on the first Monday of March of each year, or such other time and date within 30 days before or after said date as may be fixed by or under the authority of the Board of Directors. It is recommended the company follow Article II of its bylaws, or amend it to reflect current practice.

Review of the 2002 Board of Directors meeting and jurat page noted the following differences:

- Michael Bernstein per the minutes was elected as Executive Vice President and Chief Operating Officer. However, on the jurat page he is listed as Secretary.
- Gail Hanson per the minutes was elected as Senior Vice President, Chief Financial Officer, Treasurer, and Secretary. However, on the jurat page she is only listed as Treasurer.
- Michael Murray's name was incorrectly switched on the jurat page.

It is recommended the company appropriately list all directors and officers and their positions as required by NAIC Annual Statement Instructions – Health.

Insurance Coverage

The examination noted that the company did have insurance coverage for workers compensation and employers liability, directors' and officers', fiduciary, and general liability. However, the company did not have any blanket employee dishonesty (i.e., fidelity bond), professional liability, and multi-peril insurance coverage. It is recommended that VHP attain insurance coverage to adequately protect the assets of the company.

Special Deposit

In accordance with s. 609.98, Wis. Stat., before April 1st of each following year, an HMO is to deposit under s. 601.13, Wis. Stat., an amount that is at least equal to the lesser of the following:

- (1) An amount necessary to establish or maintain a deposit equaling 1% of premiums written in this state by the company in the preceding calendar year, or
- (2) One-third of 1% of the premiums written in this state by the company in the preceding calendar year.

As of April 1, 2003, VHP had not increased its special deposit to an amount that would bring the company into compliance with the requirement. After receiving a letter from the Office of the Commissioner of Insurance (OCI), VHP promptly made the special deposit. However, VHP does not have procedures in place to ensure the company is in compliance with s. 609.98, Wis. Stat. It is recommended that the company set up procedures to calculate the special deposit prior to April 1st of the following year to ensure compliance with s. 609.98, Wis. Stat.

Premium Receivable

Due to a system conversion effective January 1, 2003, the examiners were unable to perform their verification procedures of this amount as December 31, 2002. This is due to the company not having detailed history information on exactly how payments were posted. Therefore, testing was performed subsequent to the as of date.

VHP's year-end "Receivables and Unallocated Cash Aging By Carrier Report" indicated a premium receivable balance from one group over 90 days old, some of which may not have been collectable at year end 2002. This particular group only remits to VHP what they received from their COBRA enrollees, making it possible for the group to be paying October premium for one individual and December premium for another individual. VHP reconciled the premium payments from the group, however applied payments against the oldest balance first, regardless of the group billing date. It was later determined that this was not communicated to the Accounting Department. According to VHP, this is the only group they account for in this way. The difference resulting from this error is immaterial, and no adjustment will be made to the company's capital and surplus. It is recommended that the company correctly age premium

receivables to more accurately reflect any balances over 90 days past due and report balances in accordance with the NAIC Accounting Practices and Procedures Manual. It is recommended that the company set up procedures between person(s) handling premium and the Accounting Department to accurately report premium receivables.

Accounts and Records

The examination disclosed that the company had shredded manually prepared unpaid claims aging data. Thus, the audit trail for the verification of aged claim data reported on Exhibit 5 of the annual statement was destroyed. Insurers are required to maintain such records for at least three years pursuant to s. Ins 6.80, Wis. Adm. Code. It is recommended that the company retain its records as required by s. Ins 6.80 (4), Wis. Adm. Code.

Agreements

During the review of VHP's various agreements, the following was noted:

- VHP's Investment Management and Meridian Resource Corporation agreements providing investment services and subrogation and workers compensation claim recovery services did not include an effective date.
- VHP's Discretionary Agency agreement did not state a specific term.
- VHP's agreement with Meridian Resource Corporation for investigative services did not state a specific term or if it was renewable. In addition, the agreement did not list an effective date.
- VHP's agreement with United Wisconsin Proservices, Inc. for electronic submission of UB 92 and HCFA 1500 claims data did not include the date the parties signed the agreement.
- VHP's administrative service agreement with BCBSUW was not signed or dated by either party.

It is recommended the company include agreement terms, effective dates, and sign and date all agreements.

Affiliated Balances

In accordance with the administrative service agreement between BCBSUW and VHP related to the joint point-of-service (POS) product, BCBSUW is required to pay VHP 12% of the indemnity premium as consideration for providing administrative services for the out-of-

network benefits underwritten by BCBSUW. VHP collects the premium for the out-of-network benefits and pays claims for this plan. The examination found that the affiliate was paying 12% of claims as opposed to 12% of premium. It is recommended the company follow the terms of the administrative service agreement related to the joint point-of-service (POS) product.

Financial Statements

The review of the annual statement disclosed several errors listed below:

- Liabilities, Capital and Surplus: The company reported \$200,000 as common stock. However, review of the stock certificate indicated the stock had no par value.
- Review of the statement of cash flows disclosed the following errors based on the crosscheck guide included in the instructions:
 - Net investment income: The examination calculated a total of \$930,522 compared to the annual statement total of \$927,386, a difference of \$3,136.
 - Federal and foreign income taxes (paid) recovered: The examination calculated a total of \$(262,483) compared to the annual statement total of \$(835,831), a difference of \$575,348.
 - Net transfers from affiliates: The examination calculated a total of \$145,820 compared to the annual statement total of \$409,146, a difference of \$(263,326).
- Underwriting and Investment Exhibit – Part 2B – Analysis of Claims Unpaid Prior to Year End Net of Reinsurance did not crosscheck to total medical and hospital of \$80,779,047. These two numbers should be the same.
- Net unrealized capital gains and losses of \$0 reported on the Underwriting and Investment Exhibit Part 4A – Capital Gains and (Losses) did not trace to the Statement of Revenue and Expenses because the company did not include its unrealized loss in this exhibit.
- Exhibit 4 – Health Care Receivables noted the company did not separately list the names of debtors that had balances over \$10,000 or 10% of health care receivables.
- Underwriting and Investment Exhibit Part I – Premiums did not trace to the earned premium reported on the Exhibit of Premiums, Enrollment and Utilization.
- The examiner reviewed the Notes to the Financial Statement. The “Direct Premium Written/Produced by Managing General Agents/Third Party Administrators” noted this section was not applicable. However, during the examination, it was determined that the company does have a managing general agent.
- The examination review of the general interrogatories disclosed the following errors:
 - Investment interrogatory – Part 1 indicated the company had common stock with a par value of \$10. However, the stock certificate stated no par value stock.
 - Health interrogatory – Part 2 did not list all of the company’s service areas in which the reporting entity is licensed to operate. The company’s service area also includes Burnett, La Crosse, Monroe, and Sawyer.

It is recommended that the company properly fill out the annual statement in accordance with the NAIC Annual Statement Instructions – Health.

Disaster Recovery Plan

The company provided the examiners its Facilities Emergency Procedure Guidelines dated August 1, 1994, with no evidence that the plan was updated. The guidelines were more emergency procedures rather than identifying the company's actions should its facilities become unusable. In response to the prior examination recommendations, VHP agreed it would work on a more comprehensive plan to be completed in 2002. It is again recommended that the company develop a more comprehensive disaster recovery plan that would identify what would be done if there were no access to the office building and/or access to the mainframe computer. Furthermore, effective disaster recovery plans should be reviewed, updated and tested at least annually. It is recommended the company at least annually review, update and test its disaster recovery plan.

Documentation provided by VHP included an AS400 Disaster Plan. The plan addressed issues from the service providers perspective and did not include reference to the company disaster plan, other than the implied notification of the service provider of a disaster. The plan does address the restoration of the AS400, but does not appear to be integrated into VHP's comprehensive plan which was to be completed in 2002. It is recommended that VHP's disaster recovery plan be integrated with the information technology support provider as it relates to the services provided.

Subsequent Events

In 2003, the Wisconsin United for Health Foundation, Inc., disposed of approximately 25% of its BCBSUW shares in an underwritten public offering. 5,500,000 shares were sold on February 7, 2003, and 804,000 shares were sold on February 18, 2003.

On June 20, 2003, WellPoint Health Networks Inc. (hereinafter also, "WellPoint"), filed a plan to acquire Cobalt Corporation (hereinafter also, "Cobalt"), the company's controlling affiliate. Under the plan, Cobalt was merged with and into Crossroads Acquisition Corporation (hereinafter also, "Crossroads"), a direct, wholly owned subsidiary of WellPoint. Immediately

following the merger, Crossroads, as the surviving corporation, was renamed Cobalt Corporation. On September 19, 2003, the plan of acquisition was approved by Commissioner Gomez.

On December 17, 2003, Anthem, Inc., filed a statement regarding the acquisition of control of or merger with a domestic insurer pursuant to s. 611.72, Wis. Stat. The company is one of the Wisconsin domestic insurers affected by this transaction. The proposal is currently under consideration.

Compulsory Surplus Requirement

As noted in the section of this report captioned "Financial Requirements," HMOs are required to maintain minimum compulsory surplus. The company's calculation as of December 31, 2002, as modified for examination adjustments is as follows:

Assets	\$18,593,447	
Less:		
Special deposit	885,000	
Liabilities	<u>10,200,779</u>	
Total		\$7,507,668
Net premium earned	88,089,390	
Compulsory factor	<u>3%</u>	
Compulsory surplus		<u>2,642,682</u>
Compulsory Excess		<u>\$4,864,986</u>

VIII. CONCLUSION

The examination's review of the company's accounts and records did not result in any adjustments or reclassifications. Capital and surplus per the examination is \$8,392,668.

The prior examination resulted in nine financial recommendations. The company did not comply with two recommendations and partially complied with one. Two prior recommendations were no longer applicable. The current examination resulted in 13 financial recommendations, the majority of which pertained to management and control, agreements, disaster recovery plan, and annual statement errors. Most of the deficiencies identified in this report related to lack of procedures or not following annual statement instructions.

The company has experienced growth in assets and surplus, with net income being reported for all years except 2000. The net loss in 2000 was due to medical and hospital expenses increasing at a higher rate than premium earned. VHP's enrollment decreased as its general premium rate increases averaged 23%. Enrollment continued to decrease in 2001 and 2002 primarily due to premium rate increases.

VHP, though a wholly owned subsidiary of Cobalt, is operated under a joint venture agreement with Midelfort Clinic, Ltd.-Mayo Health System, BCBSUW, and UWS. This agreement was effective January 1, 2000, and is for a term of three years. The purpose of the joint venture is to design and market managed care products, which utilize a provider network. An eight member governing board consisting of four appointees each of Cobalt and Midelfort Clinic directs this arrangement.

The company is required to maintain a compulsory surplus reserve or total capital and surplus, as defined by the minimum capital rules. As of December 31, 2002, VHP's capital and surplus, (excluding the special deposit of \$885,000), is \$4,864,986 in excess of the minimum required. The company continues to have adequate capital and surplus due to favorable investment returns and positive net income to offset an increase in non-admitted assets.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 30 - Management and Control—It is recommended the company follow Article II of its bylaws, or amend it to reflect current practice.
2. Page 30 - Management and Control—It is recommended the company appropriately list all directors and officers and their positions as required by NAIC Annual Statement Instructions – Health.
3. Page 30 - Insurance Coverage—It is recommended that VHP attain insurance coverage to adequately protect the assets of the company.
4. Page 31 - Special Deposit—It is recommended that the company set up procedures to calculate the special deposit prior to April 1st of the following year to ensure compliance with s. 609.98, Wis. Stat.
5. Page 31 - Premium Receivable—It is recommended that the company correctly age premium receivables to more accurately reflect any balances over 90 days past due and report balances in accordance with the NAIC Accounting Practices and Procedures Manual.
6. Page 32 - Premium Receivable—It is recommended that the company set up procedures between person(s) handling premium and the Accounting Department to accurately report premium receivables.
7. Page 32 - Accounts and Records—It is recommended that the company retain its records as required by s. Ins 6.80 (4), Wis. Adm. Code.
8. Page 32 - Agreements—It is recommended the company include agreement terms, effective dates, and sign and date all agreements.
9. Page 33 - Affiliated Balances—It is recommended the company follow the terms of the administrative service agreement related to the joint point-of-service (POS) product.
10. Page 34 - Financial Statements—It is recommended that the company properly fill out the annual statement in accordance with the NAIC Annual Statement Instructions – Health.
11. Page 34 - Disaster Recovery Plan—It is again recommended that the company develop a more comprehensive disaster recovery plan that would identify what would be done if there were no access to the office building and/or access to the mainframe computer.
12. Page 34 - Disaster Recovery Plan—It is recommended the company at least annually review, update and test its disaster recovery plan.
13. Page 34 - Disaster Recovery Plan—It is recommended that VHP's disaster recovery plan be integrated with the information technology support provider as it relates to the services provided.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Amy Wolff	Insurance Financial Examiner

Respectfully submitted,

Lori Cretny
Examiner-in-Charge